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April 16, 2007

MANAGEMENT LETTER

Board of County Commissioners
Ravalli County
Hamilton, Montana

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MAY 30 2007

Ravalli County Commissioners

I have audited the basic financial statements of Ravalli County, Montana as of and for the year ended June 30, 2006, and have issued my report thereon dated April 16, 2007. During the audit, I noted certain immaterial compliance and internal control matters and certain other matters that I believe should be brought to your attention.

FINANCIAL ADMINISTRATION

The County utilizes a consultant as a chief financial officer which is equivalent to a 20% to 25% full-time equivalent. Consequently, the information needed to properly manage the County's financial affairs is sometimes late. This improved in the current year. As the county grows, the financial activity of the county becomes more complex and the numbers and types of transactions continue to grow. This growth requires constant management and planning. Continual changes in technology, software, and laws and procedures require a coordinated effort that is best handled by a chief financial officer. I understand that the County continues to have fiscal constraints, however, I believe that filling the position could generate additional savings and revenue sufficient to cover the costs of the position.

I recommend that the County seriously consider adding additional staff to handle its ever growing administrative burden. Specifically, I recommend that you consider employing a full-time chief financial officer.

The County may wish to contact the University of Montana's Political Science department and see if any students in their Masters of Public Administration program would be interested in analyzing the County's management systems and develop recommendations on changes the County could implement to improve its administrative and financial structure.

REPORTING INFRASTRUCTURE CAPITAL ASSETS

U. S. generally accepted accounting principals require that the County inventory, determine the estimated purchase price, and report its infrastructure capital assets by June 30, 2007.

I understand that the County has started this process.

CASH MANAGEMENT

The County made improvement in its management of cash balances late in fiscal year 2006, but more improvements need to be made.

The County should revise its policies and procedures to ensure that the investment pool funds are managed and invested to maximize the earnings on investments. Specifically, the "Sweep" bank account should be monitored and funds transferred to or from the State Short-term Investment Pool (STIP) daily. This would increase interest earnings.

For the long run, the County should revisit its general policies and procedures for the management of the investment pool and cash balances in general. The County's current policy on investments is a general statement of assignment of responsibility. It does not address several areas that should be included to give the County Treasurer and Board of Commissioners guidance. Some of the areas the County should consider including would be:

1. Adopting investment objectives.
2. Developing investment policies to meet the objectives.
3. Creating procedures to implement the policies.
4. Setting up a committee to implement and monitor the policies and procedures and recommend changes as circumstances warrant.

A good source for starting the process of revising the County's investment policies is the Recommended Practices for State and Local Governments from the Government Finance Officers Association. You could also request copies of investment policies from other counties to avoid "recreating the wheel".

Investment Objectives - The primary objectives of the County's investment program should be:

- A. Ensure compliance with State law and ensure the safety of the cash and investments.
- B. Ensure adequate liquidity to meet the current and future needs of the local governments.
- C. Obtain the maximum yield possible while meeting the first two objectives.

Investment Committee - These objectives can be met by developing adequate policies and procedures. An investment committee may be the best way to develop the policies and procedures that meet the needs of both the County and the local governments. Composition of the committee could include representation from the County as well as community members and participating local government representatives.

Investment Policies - These should include the legal requirements on types of allowable investments, collateralization and insurance requirements, internal controls guidelines, diversification guidelines, maturity limitations, and training requirements. Stated policies develop a basis for the evaluation of the program.

Investment Procedures - Procedures should be developed to help the County Treasurer meet the investment objectives noted above. The investment procedures should include the determination

of cash flow requirements, reporting requirements, bidding guidelines, selection of committee members, and credit risk analysis.

For instance, the reporting procedures for the investment program to the Commissioners and investment committee should include the end-of-period values, rate of return, collateralization and insurance coverage (and changes), changes in portfolio mix, maturity of investments, and changes in cash flow requirements. Adequate reporting allows for the evaluation of the cost of administering the program to the program's return on investments.

I recommend the County develop a comprehensive investment program that includes policies and procedures to maximize investment income while protecting the assets from loss and maintaining adequate liquidity to meet the cash flow needs. I understand the County Treasurer has requested the 2007-08 budget include monies to develop this program.

PROPERTY TAXES RECEIVABLE

State law establishes the timing and procedures for enforcing payment for delinquent real property taxes. This is especially critical for personal property where collections are prohibited after five years. The County had to write off in excess of \$130,000 of personal property taxes in fiscal year 2005 for uncollected back taxes. The County Treasurer issued writs to attempt to collect on personal property taxes, but the Sheriff declined to serve them.

Commissioners should consider working with Montana Association of Counties to modify the law to either allow them to contract out this process, or force Sheriffs to enforce the law. This is a problem in other counties across the state and the law needs to be changed to allow Counties to collect on personal property taxes.

SUPPLIES INVENTORY

The County Road Department maintains a supply inventory of equipment repair parts. The County did not do an annual physical count of the items in 2006.

The County should ensure an inventory is performed annually and the inventory accounting records adjusted based on the physical count.

TRAFFIC FINE TICKET BOOKS

Good management of ticket books requires that books be checked out to law enforcement personnel and that, when they have used all the tickets, the books be returned to the person tasked with ensuring control over the tickets. The Sheriff's office controls distribution of the books but the completed books aren't returned and a check done to make sure that all tickets are properly accounted for by administrative staff. Copies of tickets go to the offender, the court, and to the case file controlled by the deputy. There is no numerical control for the tickets issued to the deputy and ruined, voided, canceled, or otherwise unused tickets that do not result in a traffic charge are not accounted for or controlled, that is, a control copy of the ticket book is not returned to the Sheriff's office. Not having a control source that accounts for all of the tickets in a book issued to a deputy provides an opportunity to collect bonds or fines when the traffic ticket is issued and then destroy the traffic ticket. This system does not provide a way to ensure that the deputies are depositing all funds collected for bonds.

The Sheriff should develop procedures that would ensure all monies collected by the deputies were deposited. In order to accomplish this the ticket books should be returned with at least one copy of each ticket still intact, and a person should be tasked with insuring that all ticket books checked out are properly accounted for by administrative staff.

PRIOR YEAR COMMENTS

Because of the late completion of the 2004 audit, it was not possible to implement most of the prior year recommendations in 2005.

FINANCIAL ADMINISTRATION - See comment repeated above

CASH MANAGEMENT - See comments repeated above

PROPERTY TAXES RECEIVABLE - See comment repeated above.

INVENTORY OF CAPITAL ASSETS - The County inventoried its capital assets in 2006.


SUPPLIES INVENTORY - See comment repeated above.

TRAFFIC TICKET BOOKS - See comment repeated above.

BUDGETS - State law has been changed to allow setting budget authority at the fund level.

If you have any questions on the above matters, please do not hesitate to give me a call. I would be pleased to meet with the Commissioners to discuss these recommendations or any matters in the audit report. I would like to thank all of the County personnel for their assistance and cooperation during the audit. I look forward to continuing to work with the County in future years.

Your very truly,


Ronald Paul Foltz
Certified Public Accountant
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